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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY  
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RUEHAK/AMEMBASSY ANKARA PRIORITY 5215  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 2955  
RUEHKO/AMEMBASSY TOKYO PRIORITY 2820  
RUEHIT/AMCONSUL ISTANBUL PRIORITY 3459  
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RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY  
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
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RHEHNSC/NSC WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
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SUBJECT: TURKMENISTAN: STATUS OF ENERGY DEVELOPMENT AND  
SECTOR POLICY

11. (U) Sensitive but unclassified. Not for Internet  
distribution.

12. (SBU) SUMMARY: Oil and gas sector development in  
Turkmenistan is making progress, albeit slowly. There has  
been no change in the policy of barring foreign companies  
from onshore PSAs, but the door appears to be open regarding  
the signing of other types of agreements. Although PSA  
proposals are welcome for offshore projects, the government  
has not signed one since December 2007, although it signed a  
preliminary agreement in April with a German energy company  
that is likely to lead to a PSA. Turkmenistan is now  
focusing more on its stated goal of export pipeline  
diversification, and chilled relations with Russia may help  
make Turkmen officials more receptive to Western export route  
discussions. The country's export policy appears focused on  
balancing the level of exports in all directions to give the  
country the upper hand and prevent any single partner from  
gaining leverage over the government. There has never been a  
better time to encourage the Turkmen to look westward for  
lucrative new opportunities to advance their diversification  
goals. END SUMMARY.

TURKMENISTAN'S PRODUCTION/EXPORT PICTURE

13. (SBU) According to official Turkmen Government  
information, in 2008 the country produced 70.4 bcm of natural  
gas, and exported 47.4 bcm (5 bcm to Iran, the rest to  
Russia). (NOTE: In late 2007, the President instructed  
sector officials to produce 81.5 bcm of gas in 2008, but  
actual production fell short by some 11 bcm. END NOTE.) In  
2008 the country produced 10.2 million tons of oil and  
exported more than half of it in the form of refined fuels  
and petrochemicals. While the government has not yet  
published any production figures for the first quarter of  
2009, a Ministry of Oil and Gas official told Post's local  
POL/ECON Assistant in April that Turkmenistan had earned

about \$3.5 billion from gas sales in the first quarter, which by our rough estimate suggests that about 11 bcm of gas was exported. Based on our understanding of earnings from 2008 and first quarter 2009, there are no indications that Turkmenistan is going to feel a financial pinch anytime soon.

#### RUSSIAN HALT IN TURKMEN GAS DELIVERY CONTINUES

14. (SBU) Turkmenistan is reportedly losing some \$250 million in earnings each week the stoppage continues, and five weeks have already passed. There are no indications that the loss in earnings has caused them any financial discomfort, given past earnings, and there is little chance the temporary loss in earnings will cause any significant budgetary problems. There are indications that the Turkmen Government is growing impatient with Russian rhetoric on the dispute and its unwillingness to resolve the problem as an equal partner. Post learned from a Western contact in early May that a group of foreign experts were in Turkmenistan in April to assess the cause of the pipeline explosion. The group reportedly determined that Gazprom was to blame, paving the way for Turkmenistan to demand compensation from the Russian energy giant. There are no signs, however, that Gazprom has accepted blame or agreed to compensate Turkmenistan. A May 21 article in Turkmen press suggested that the Turkmen Government increasingly viewed Russia as an unreliable partner, and that Turkmenistan would begin to focus more attention on the potential construction of alternate export pipelines.

#### COMMERCIAL ACTIVITY IN SECTOR DEVELOPMENT UNCHANGED

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15. (SBU) The total number of foreign company Production Sharing Agreements (PSAs) in Turkmenistan remains at seven (three onshore: CNPC, Mitro, and Burren Energy, four offshore: Dragon Oil, Wintershall, Petronas, Buried Hill). No offshore PSAs have been signed since Buried Hill in December 2007. The German energy giant RWE -- a stakeholder in the EU-proposed Nabucco project -- signed a Memorandum of Understanding (MOU) with Turkmenistan on April 17 to explore offshore Block 23, but a final contract agreement has not emerged. Onshore, no PSAs have been signed since July 2007 with the Chinese national company, CNPC. The Turkmen Government's policy of denying onshore PSA opportunities to international oil companies, formally stated in mid-2008, continues, although officials continue to publicly invite foreign companies to submit non-production sharing onshore proposals. Foreign energy-related service companies like Schlumberger, Parker Drilling, and Weatherford appear to be thriving, in spite of the tough business environment, and logistical services and equipment companies such as Bertling, DRC Group LLC, and Cameron are also reporting positive business development plans here.

#### PROGRESS ON SOME PIPELINE PROJECTS ...

16. (SBU) Beginning in 2008, Turkmen Government officials began stating more directly the national policy goal of diversifying the country's export pipeline infrastructure, and over the past year there has been marked progress in realizing it. Construction of the Turkmenistan-China pipeline that will carry 30-40 bcm of gas is progressing, and the pipeline is expected to initiate at least small gas deliveries in 2010. In February, Iran and Turkmenistan surprised everyone with the signing of a MOU that laid the ground work for Iranian companies to potentially develop the South Yoloten field and build a new export pipeline that would carry 10 bcm of Turkmen gas to northern Iran annually. Post has learned from Western contacts here that in April, Iranian technical experts visited the mega-giant gas field. In early May, Iranian officials announced that they had delivered their project proposal to the Turkmen Government.

... AND LESS PROGRESS ON OTHERS

17. (SBU) There has been no progress on the development of the Caspian Littoral pipeline that was the subject of a December 2007 agreement between Russia, Kazakhstan and Turkmenistan. Although Russia and Kazakhstan have ratified the agreement, Turkmenistan has shown no sign that it intends to ratify the agreement anytime soon. Turkmen concerns about the agreement appear to center on a reluctance to expand the planned pipeline's capacity beyond 30 bcm and Russian efforts to make a planned domestic Turkmen East-West pipeline a dedicated feed line for the Littoral, according to a Western commercial contact. Turkmen officials demonstrated their displeasure with Russian intrigues in April by issuing an international tender for the East-West pipeline's construction, just two days after President Berdimuhamedov refused to sign a no-bid construction contract for the pipeline with a Russian company in Moscow. (NOTE: Post learned in mid-May that the East-West tender will close in July, a month later than previously stated. It may be that the government has not yet received a proposal that includes the kind of financing the government would probably like to see for the estimated \$1 billion project. END NOTE.)

18. (SBU) COMMENT: Turkmenistan's decision making policy over the last two years shows that the country is developing

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the sector at its own speed and in its own way. Armed with a pragmatic neutrality policy, the Turkmen President appears to be especially receptive to bilateral package deals that contain investment for development, advance pipeline diversity and a political desire for long term partnership. The Chinese pipeline and production deal -- and possibly a future Iranian deal -- bring these benefits. There has never been a better time to promote diversity in development and in export. While Russia will continue to be a key partner for the foreseeable future, a variety of other partners will increasingly empower the Turkmen Government and allow it to resist pressure from any one direction. Recent Turkmen Government actions suggest that it, too, wants to avoid deals that give one partner too much latitude over Turkmen commerce. END COMMENT.  
MILES